

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SAJ-01 AID-05 CIAE-00 EB-07

FRB-01 INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-02 H-02 PA-02 PRS-01 USIA-15 HUD-02

AGR-10 /124 W

----- 115656

R 311844Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7844

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 01590

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JANUARY 31

BEGIN SUMMARY: THE LONDON STOCK MARKET HAS TAKEN OFF IN

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THE LAST 3 WEEKS (106 POINT RISE FT INDEX -- 73 PERCENT)

MAKING STOCK BROKERS A LITTLE HAPPIER AND RAISING BRITISH COMPANY HOPES OF REVIVING EQUITY FINANCING. BUT THERE IS NOT MUCH ELSE TO SHOUT ABOUT IN THE UK ECONOMY. THE WEAKENING DEMAND PICTURE STILL OBTAINS WITH HOUSING AND CONSUMER CONFIDENCE SHOWING FURTHER DECLINES. THE GOVERNMENT'S PUBLIC EXPENDITURE PLANS FOR THE NEXT 5 YEARS INDICATE CONSTRAINT ON PUBLIC SPENDING GROWTH AND SEVERE CONSTRAINT ON CONSUMPTION (INCLUDING POSSIBLY AN INCREASED TAX BURDEN) IN ORDER TO MOVE RESOURCES TO EXPORTS AND MATCH EARNINGS AND SPENDING WITH DISPOSABLE NATIONAL INCOME, WHICH HAS FALLEN SHARPLY BECAUSE OF TERMS OF TRADE DETERIORATION. THERE ARE INCREASING CALLS BY GOVERNMENT MINISTERS FOR UNIONS TO STRICTLY OBSERVE THE "SOCIAL CONTRACT." WITH UNEMPLOYMENT RISING FAST AND DISGUISED UNEMPLOYMENT (I.E. REDUCED HOURS) RISING EVEN MORE RAPIDLY THERE ARE SOME SIGNS THAT UNION MEMBERS ARE BEGINNING TO GET THE MESSAGE. THE DOLLAR-POUND EXCHANGE RATE REMAINED FAIRLY STABLE BUT EASED SLIGHTLY OVER THE WEEK. EURO-DOLLAR RATES CONTINUED THEIR DOWNWARD TREND. END SUMMARY

1. PUBLIC EXPENDITURE. THE ANNUAL WHITE PAPER ON PUBLIC EXPENDITURE THROUGH THE NEXT 5 FISCAL YEARS, PUBLISHED THURSDAY, INDICATES AN AUSTERE PERIOD FOR THE UK. PUBLIC EXPENDITURE GROWTH IS TO BE LIMITED TO AN ANNUAL AVERAGE OF 2.8 PERCENT, AFTER GROWING OVER 9 PERCENT IN THE PRESENT FISCAL YEAR, IN REAL TERMS. THIS GROWTH PLUS THE NEED TO DIVERT MORE RESOURCES TO EXPORTS TO FINANCE HIGHER PRICED IMPORTS AND SERVICE EXTERNAL DEBT IMPLIES VERY LOW GROWTH FOR CONSUMPTION FINANCED FROM PRIVATE INCOME. A FURTHER IMPLICATION IS AN INCREASED TAX BURDEN.

2. DISPOSABLE INCOME. AN INDEX SHOWS A 6 PERCENT (108.3 TO 102.4 - 1970 EQUALS 100) DROP IN THE FIRST HALF OF 1974 OVER 2ND HALF 1973. GDP INDEX ONLY FELL 1.6 PERCENT (111.1 TO 109.3) BUT TERMS OF TRADE DECLINED BY 7.2 PERCENT (LESS 0.3 FOR INCOME FROM ABROAD) LEADING TO LARGER FALL IN DISPOSABLE INCOME.

3. HOUSING. BUILDING ORDERS FELL IN NOVEMBER. IN REAL TERMS, SEASONALLY ADJUSTED, SUCH ORDERS HAVE FALLEN BY 7 UNCLASSIFIED

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PERCENT IN SEPTEMBER-NOVEMBER PERIOD OVER PREVIOUS 3-MONTH PERIOD.

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4. CONSUMER CONFIDENCE. A FINANCIAL TIMES SURVEY INDICATES CONSUMER CONFIDENCE LOWER THAN ANY TIME SINCE 1970, WHEN SURVEY BEGAN. AT SAME TIME A MAJORITY OF CONSUMERS BELIEVE PRESENT IS A GOOD TIME TO BUY DURABLE GOODS.

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5. SAVINGS. DETAILS OF THE INDEX-LINKED NATIONAL SAVINGS SCHEME WERE PUBLISHED. THE SCHEME IS LIMITED TO PENSIONERS AND SMALL SAVERS. DETAILS TO FOLLOW.

6. EXCHANGE RATE AND GOLD:

	1/23	1/30	CHANGE
EXCHANGE RATE	\$2.3810	\$2.3775	DOWN 0.0035
EFFECTIVE DEPRECIATION			
(PERCENT)	21.7	21.9	DOWN 0.2
GOLD	\$174.50	\$177.50	UP \$3.00

7. FORWARD DISCOUNT ON STERLING:

	1/23	1/30	CHANGE
1 MONTH	0.95	1.05	UP 0.10
3 MONTHS	2.95	3.00	UP 0.05
	1/23	1/30	CHANGE
6 MONTHS	5.77	6.00	UP 0.23

(ALL FIGURES IN CENTS)

8. EURODOLLAR INTEREST RATES:

	1/23	1/30	CHANGE
1 MONTH	7-1/2	6-3/4	DOWN 3/4
3 MONTHS	8-1/4	7-1/8	DOWN 1-1/8
6 MONTHS	8-1/4	8	DOWN 1/4

9. LOCAL AUTHORITY DEPOSIT RATES:

	1/23	1/30	CHANGE
1 MONTH	11-3/8	11-15/16	UP 9/16
3 MONTHS	12	12-1/16	UP 1/16
6 MONTHS	12-5/16	12-1/4	DOWN 1/16

10. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11 PERCENT ON FRIDAY, JANUARY 31, 1975.

SPIERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
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Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY, ECONOMIC TRENDS, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 31 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON01590
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750036-1064
From: LONDON
Handling Restrictions: n/a
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ISecure: 1
Legacy Key: link1975/newtext/t1975013/aaaaaceatel
Line Count: 207
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
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Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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Previous Handling Restrictions: n/a
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Review Comment: n/a
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Margaret P. Grafeld
Declassified/Released
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05 JUL 2006

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Review Withdrawn Fields: n/a
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TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006